

**June 29, 2018**  
**Form ADV Part 2A**

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**This brochure provides information about the qualifications and business practices of The Baupost Group, L.L.C. If you have any questions about the contents of this brochure, please contact us at 617-210-8300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about The Baupost Group, L.L.C. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Registration as a registered investment adviser pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) does not imply a certain level of skill or training.**

**Item 2.       Material Changes**

Since the last published Form ADV Part 2A dated March 29, 2018, there has been an update to the disciplinary event in Item 9.

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#### **Item 4. Advisory Business**

The Baupost Group, L.L.C. (“Baupost”) was formed in May 1982 (originally as The Baupost Group, Inc.). Baupost’s President, Chief Executive Officer and principal owner, Seth A. Klarman, serves as Portfolio Manager and has been managing the investments of Baupost’s clients since the company’s inception. Baupost is the managing general partner to eleven domestic investment limited partnerships (each, a “Partnership,” collectively, the “Baupost Partnerships”). All of the Baupost Partnerships are privately offered investment vehicles exempt from registration as investment companies under the Investment Company Act of 1940, as amended (the “1940 Act”). Baupost Partners, L.L.C. (“Baupost Partners”), an affiliate of Baupost, serves as profit sharing general partner to the Baupost Partnerships (together with Baupost, the “General Partners”). Baupost has no ownership interest in Baupost Partners, but certain members and employees of Baupost are members of Baupost Partners.

As managing general partner of each Partnership, Baupost is solely responsible for the management and administration of such Partnership, including the making of all investment decisions on behalf of such Partnership and the placing of all orders for the purchase and sale of investments. Baupost Partners has no responsibility for the management or administration of, and does not exercise any investment discretion with respect to, the Baupost Partnerships.

Baupost manages each Partnership pursuant to the investment strategy set forth in such Partnership’s limited partnership agreement (“LP Agreement”) and, if applicable, offering memorandum. Ten of the Baupost Partnerships invest in a wide range of public and private securities and assets (collectively, the “Primary Partnerships”). The eleventh Partnership is an overflow vehicle (the “Overflow Partnership”) to which no new investments are being allocated, other than follow-on investments and hedges. Baupost does not provide specifically tailored investment advice to investors in the Baupost Partnerships, and investors may not impose investment restrictions on their investment in the Baupost Partnerships.

Contributions to and withdrawals from the Baupost Partnerships are subject to the terms and conditions set forth in the respective LP Agreements of the Baupost Partnerships in which investors are invested. Investors in the Baupost Partnerships are subject to restrictions on their ability to withdraw capital from the Baupost Partnerships. Baupost, has the right, in its sole discretion, to waive or alter some or all of the applicable restrictions on capital withdrawals and contributions (for example, notice periods, withdrawal of the portion of capital allocated to restricted investments, and other matters) or on transfers of limited partnership interests for investors as set forth in each Partnership’s LP Agreement and, if applicable, offering memorandum, and Baupost generally does waive notice periods for employees and certain former employees.

Investors are urged to review the relevant LP Agreement and, if applicable, offering memorandum for additional information about matters addressed in this and other items throughout this brochure.

As of December 31, 2017, Baupost's regulatory assets under management were approximately \$31,088,780,729, all of which are managed on a discretionary basis. Baupost does not manage assets on a non-discretionary basis.

#### **Item 5. Fees and Compensation**

As compensation for its advisory services, Baupost receives a management fee from each of the Baupost Partnership that is required to be paid in advance at the beginning of each quarter. The management fee is assessed based on relevant limited partner capital account balances as of the first business day of each fiscal quarter. Prior to applying the management fee rate, each capital account balance is reduced by unrealized gains (net of unrealized losses) on any Illiquid asset (as defined in each Partnership's LP Agreement) and by any positive adjusted profit sharing obligation allocable to such capital account. The management fee for a fiscal quarter is due and payable upon calculation. The management fee expense is evenly amortized over the quarter and deducted from each relevant limited partner's capital account monthly.

In addition, the General Partner(s) are eligible to receive performance-based compensation from the Baupost Partnerships, subject to, if applicable, loss carryforward limitations set forth in each LP Agreement. As a result of the profit sharing obligation, a certain portion of eligible profits initially allocated to each relevant limited partner in each Partnership is reallocated to the General Partner(s), subject to the limitations set forth in each applicable LP Agreement. The profit sharing obligation is accrued at least quarterly and is reallocated to the General Partner(s) annually. If an investor withdraws or transfers its interest during the year, a proportionate amount of the profit sharing obligation may be reallocated from the capital account of the investor to the capital account of the General Partner(s).

The profit sharing obligation of each relevant investor in the Baupost Partnerships is 20% of eligible profits, as described in detail in each respective LP Agreement and, if applicable, offering memorandum. Any profit sharing obligation generated from unrealized gains on any Illiquid assets will be deferred for reallocation to the General Partner(s) until gains are realized.

Management fees and profit sharing obligations are non-negotiable and non-refundable; however, Baupost may, in its sole discretion, waive these fees for certain investors in whole or in part, and generally does so for current employees, certain former employees, founders and certain related parties of the foregoing. Baupost may discontinue a fee waiver at any time, and generally discontinues fee waivers for departing employees.

The aforementioned compensation of Baupost and Baupost Partners is based upon the value of the Baupost Partnerships assets, which Baupost is responsible for determining. To mitigate this conflict, Baupost does not collect management fees nor profit sharing obligations on unrealized gains on any Illiquid assets. Additionally, Baupost engages independent third parties to assist with

valuing certain illiquid assets. Baupost also engages an independent auditor to conduct periodic valuation testing (see Item 13 for additional detail).

## **Expenses**

In addition to the fees disclosed above, the Baupost Partnerships will bear, or reimburse Baupost for, all organizational, restructuring and offering expenses and for all ordinary and extraordinary expenses incurred or advanced in the operation or management of the Baupost Partnerships and their investment activities as Baupost deems to be reasonable and necessary. The costs and expenses borne by the Baupost Partnerships (of which the limited partners bear their allocable share) include, without limitation:

- (i) Investment-related expenses, such as expenses related to sourcing investments, performing due diligence related to prospective investments or areas of investment, structuring, negotiating and executing acquisitions and dispositions of investments, and performing ongoing supervision and maintenance of investments, including but not limited to the following:
  - a) brokerage fees and commissions;
  - b) clearing and settlement charges and custodial and sub-custodial fees;
  - c) fees and expenses (including travel expenses) charged by professional service providers, such as legal, accounting, auditing, consulting (which may include the cost of consultants onsite at the General Partners' offices), investment banking, research (including expert network services and research provided by providers of brokerage services), advisory, lobbyist and other professional service providers;
  - d) costs of retainers and transaction based compensation or success fees, some of which may be discretionary, charged by third party consultants, brokers and advisers in connection with sourcing investments in certain markets;
  - e) management, development, profit-sharing or other fees or expenses (including, in certain instances, an operating partner's operational and overhead expenses) charged by operating partners or third parties who manage or source certain investments (including joint ventures, investment companies, partnerships and other pooled investment vehicles);
  - f) fees and expenses associated with any advisory board or committee required or advisable in certain non-U.S. jurisdictions in connection with investments;
  - g) interest and fees (including, without limitation, commitment, structuring, and underwriting fees) on margin loans, loan facilities, total return swaps and other indebtedness or other types of instruments, and related fees and expenses;
  - h) any of the foregoing to the extent related to potential investments that were not consummated; and
  - i) any other expenses related to a prospective investment, an existing investment or an area of investment;

- (ii) fees and expenses of professional service providers, including, without limitation, consultants and attorneys, including expenses for legal work related to Baupost Partnerships' amendments, costs and expenses incurred in connection with the dissolution, winding up, termination and liquidation of the Baupost Partnerships and the costs of any litigation or investigation involving activities of the Baupost Partnerships;
- (iii) expenses related to the Baupost Partnerships' indemnification obligations under the LP Agreements, as well as director and officer liability insurance, errors and omissions insurance, or other insurance costs including insurance premiums, including insurance of which the General Partners and their affiliates are beneficiaries;
- (iv) administration fees and other expenses charged by or relating to the services of third-party providers of administration services;
- (v) expenses associated with pricing and investment valuation services;
- (vi) audit, accountant and tax preparation expenses;
- (vii) fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law or regulation in connection with the activities of the Partnership, including, without limitation, any governmental, regulatory, licensing, filing or registration fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filing of Section 13 filings, Section 16 filings and other similar regulatory filings);
- (viii) costs associated with compliance with (x) anti-money laundering regulations, (y) know your customer and anti-money laundering requirements of service providers and other counterparties, and (z) the Baupost Partnerships' know your customer review of prospective and existing investors, service providers and other counterparties; and
- (ix) other expenses associated with the operation of the Baupost Partnerships (these may include, for example, although not historically borne by the Partnership, expenses associated with organizing and conducting Limited Partner meetings).

Expenses of the Baupost Partnerships exclude (i) the compensation of the employees of Baupost, (ii) expenses incurred for Baupost office space, equipment and other overhead related to the Partnerships' business, and (iii) the cost and expenses of travel undertaken by Baupost's employees.

As stated above, the Baupost Partnerships will incur brokerage and other transactions costs when a broker-dealer is used in connection with an investment. For additional information regarding brokerage practices, please see Item 12 below.

When a Baupost Partnership invests in joint ventures, including those with operating partners, or pooled investment vehicles, investors bear the cost of any management and performance fees of such third parties in addition to the fees of the General Partners.

To the extent that any expenses or fees relate to all or some of the Baupost Partnerships (or to investments thereof), such expenses or fees are allocated on a pro rata basis across the Baupost

Partnerships to align, as closely as practicable, the expense burden with the beneficiaries of the service or investment activity. The Baupost Partnerships also bear, in a similar manner, expenses in connection with transactions that were terminated or abandoned. The Overflow Partnership does not bear such expenses for any such transaction unless Baupost had previously determined that the Overflow Partnership should participate in such transaction (in which case, the Overflow Partnership would bear its applicable portion).

#### **Item 6. Performance-Based Fees and Side-By-Side Management**

As described in Item 5 (“Fees and Compensation”), the General Partner(s) are eligible to receive performance-based compensation from the Baupost Partnerships. Baupost recognizes that managing partnerships with differing terms relating to performance-based fees (such as different loss carryforward limitations) may present potential conflicts of interest, including that Baupost may have an incentive to favor one Partnership over another when allocating investment opportunities. To mitigate these conflicts, Baupost’s policies and procedures seek to provide that investment personnel make decisions based on the best interests of the Baupost Partnerships, without consideration of Baupost’s financial interests. Baupost has adopted a Trade Allocation Policy that seeks to allocate investments to the Baupost Partnerships in a fair and equitable manner.

As a general rule, allocations of liquid purchases among participating partnerships are made pro rata based on a Partnership’s available buying capacity, which is determined based on projected and available cash in excess of reserve levels established by Baupost. Allocations of illiquid purchases among participating Partnerships are generally made pro rata based on a Partnership’s available buying capacity (as determined in the discretion of Baupost) and such Partnership’s capacity for restricted investments, where applicable, or otherwise in the discretion of Baupost.

Effective January 1, 2017, new investments are no longer allocated to the Overflow Partnership, other than (i) hedges with respect to existing investments held by the Overflow Partnership, (ii) hedges with respect to the Overflow Partnership’s existing portfolio of investments or any subset thereof, and (iii) follow-on investments made in respect of existing investments held by the Overflow Partnership.

Allocations of portfolio-level hedge purchases among participating Partnerships are generally made pro rata based on a Partnership’s Net Asset Value. Allocations of purchases specific to an existing investment, such as investment hedges or follow-on transactions, are generally made pro rata based on the allocation of that existing position across the Baupost Partnerships. Follow-on transactions include additional investments made by a joint venture or pooled investment vehicle in which some or all of the Baupost Partnerships are already invested. Accordingly, allocations may be fixed for discrete investments made by such joint ventures or pooled investment vehicles over a period of several years.



Allocations of sales are generally made pro rata based on the ownership of the existing position by the Baupost Partnerships. The Overflow Partnership participates in aggregated sales orders with such other partnerships if the Overflow Partnership holds the investment being sold.

Allocations may be modified to take into consideration other factors such as legal, tax, and regulatory considerations.

#### **Item 7. Types of Clients**

Baupost's clients are the Baupost Partnerships. Baupost manages one Partnership exempt from registration under Section 3(c)(1) of the 1940 Act and ten Partnerships exempt from registration under Section 3(c)(7) of the 1940 Act. Investors, which may be high net worth individuals, corporations, charitable institutions, pension and profit sharing plans, trusts, individual retirement accounts and other entities, are admitted to the Baupost Partnerships at the discretion of Baupost, and contributions by investors to the Baupost Partnerships are accepted solely at the discretion of Baupost. Baupost also allows certain of its employees to invest in certain Baupost Partnerships. Some (but not all) of the Baupost Partnerships impose a minimum initial investment requirement of up to \$25 million, which may be waived at the discretion of Baupost.

#### **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

Baupost is an opportunistic, value-oriented, open mandate investment organization whose goal is to invest capital in such a manner as to achieve attractive risk-adjusted returns over an extended period of time. To achieve this objective the Baupost Partnerships seek to invest in assets which Baupost considers to be undervalued relative to their market price. The Baupost Partnerships invest, either directly or indirectly, in securities and other assets that Baupost believes to have some or all of the following characteristics: they are currently out of favor, but have good prospects; they sell at a significant discount to underlying economic value; they have catalysts in place for the realization of underlying value; they are highly complex; they are somewhat or highly illiquid; and they sell at prices below what would reasonably be expected due to market imperfections and inefficiencies, including but not limited to temporary supply/demand imbalances, information gaps, and selling pressures.

The Baupost Partnerships have a broad investment mandate that contemplates investing in a range of financial instruments, asset classes and geographic regions, including those with respect to which Baupost initially may have limited experience. An investment in the Baupost Partnerships entails various risks, including the speculative nature of the Baupost Partnerships' activities, the illiquidity of interests in the Baupost Partnerships; the illiquidity of certain investments the Baupost Partnerships may make; the risk that the securities markets may continue indefinitely to undervalue the Baupost Partnerships' investments or that the investments may fail to appreciate as anticipated by Baupost; and the fact that the Baupost Partnerships may invest in, subscribe for, purchase or otherwise acquire, and/or sell (including short sales) or otherwise dispose of securities

and assets of all types, including, without limitation, stock (including preferred and convertible stock as well as common stock of any type), warrants, options, swaps, trade claims, bank debt (including undrawn revolvers), bonds, other debt instruments including self-originated loans, currency, futures, derivatives, commodities, contract rights of any kind, royalty interests, non-U.S. securities and other assets (including in emerging markets), structured investment vehicles, secured and unsecured instruments, asset-backed securities, commercial and residential mortgage-backed securities, real estate and related instruments, other complex financial instruments and rights and distressed assets. The securities in which the Baupost Partnerships invest include securities which are listed or traded on domestic or non-U.S. exchanges or other trading networks (including over the counter markets), as well as securities that are unlisted and trade infrequently or not at all.

At times a significant amount of the Baupost Partnerships' investments may be in securities or other assets that are not freely tradable or are otherwise illiquid. Such investments include interests in private equity investments, real estate, leveraged buy-out vehicles and joint ventures, which are typically organized as limited partnerships or limited liability companies, and are managed by third party asset managers that specialize in the particular class of assets under management. The Baupost Partnerships may also make investments in private investments in public equity (PIPEs), which generally are not registered with the SEC until after a certain time period from the date the private sale is completed, Rule 144A securities and other direct assets such as car loans, consumer loans, commodities or non-performing assets.

Prospective investors should also consider the risks associated with the loss of key personnel of Baupost. Prospective investors should consult with their own advisers in order to understand the consequences of an investment in the Baupost Partnerships. Any investor not able to bear the risk of loss of his or her investment should not participate in the Baupost Partnerships.

## **Investment Policies**

***Investment Selection.*** Baupost selects investments according to many criteria, which may include book value, estimated underlying economic value, current and projected future earnings, cash flow, yield, skills of management, future prospects of the business and current market price of the investment. Baupost utilizes several analytical techniques, which may include fundamental analysis, analysis of historical relationships, economic analysis, business cycle analysis, interest rate analysis and industry analysis to make its investment decisions.

***Control of Private Portfolio Investments.*** The Baupost Partnerships' investments in private equity, real estate and leveraged buy-out vehicles are usually structured in a manner that permits the Baupost Partnerships to have some input into the management of the vehicle by the third party asset manager. Although the Baupost Partnerships generally do not exercise or seek to exercise control in these situations, they will often have the ability to influence the management of such

investment vehicles, including the underlying investment decisions. In a limited number of cases, the Baupost Partnerships invest in a purely passive role.

**Concentration.** It is expected that no single investment of a Partnership will exceed 10% of the assets of such Partnership at the time of purchase. The favorable performance of a particular investment or sale or other disposition or relatively unfavorable performance of other investments may increase the percentage of such Partnership's assets in a single investment beyond 10%. However, Baupost reserves the right to acquire a single investment that exceeds 10% of the assets of any Partnership at the time of its purchase if it deems the investment advisable.

**Cash Balances and Portfolio Turnover.** The Baupost Partnerships typically hold significant cash or cash equivalent balances. The Baupost Partnerships generally hold any cash balances they may accumulate for investment, reinvestment, and distribution to the Partners or reserves for unfunded obligations in short-term debt securities, either taxable or, in whole or in part, tax-exempt, in securities subject to repurchase agreements, in taxable or tax-exempt money market mutual funds or in bank accounts. These cash balances are most typically held in securities issued by or backed by the government of the United States. The cash balances of the Baupost Partnerships (including amounts held in short-term debt securities, money market mutual funds or bank accounts) will vary from time to time as Baupost may deem advisable and may at any particular time amount to a significant portion of the assets of the Baupost Partnerships. Portfolio turnover is not a limiting factor with respect to investment decisions. High portfolio turnover involves correspondingly greater brokerage commissions and other transaction costs, which will be borne by the Baupost Partnership. Baupost may also deem it advisable to hold no cash balances whatsoever from time to time.

**Purchase of "New Issues."** From time to time, the Baupost Partnerships may purchase equity securities in an initial public offering. Such offerings are considered "new issues," as defined in Rule 5130 of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Rule 5130 generally prohibits members of FINRA from selling new issues to an account in which a "restricted person" (as defined in Rule 5130) has an interest, unless the fund has a mechanism in place that excludes such "restricted person" from receiving allocations of profits and losses from new issues. Furthermore, FINRA Rule 5131 generally prohibits members of FINRA from selling new issues to an account in which directors and executive officers of certain public and non-public companies (or persons receiving material support therefrom) have an interest, unless the fund has a mechanism in place that excludes such persons restricted by Rule 5131 from receiving allocations of profits and losses from the new issue. To allow the Baupost Partnerships to participate in new issues, Baupost has developed and implemented procedures to segregate the interests in the Baupost Partnerships of "restricted persons" and persons covered by FINRA Rule 5130, on the one hand, and persons not so restricted or covered, on the other, relying on the representations the investor makes in the Subscription Agreement or periodic questionnaires distributed by the Baupost to make such determinations. If an investor is unable or unwilling to complete the applicable information in the Subscription Agreement or periodic questionnaires, Baupost may

treat the investor as a restricted person and that investor may not be able to participate in any profits or losses attributable to the Baupost Partnerships' investment, if any, in new issues.

## **Investment Risks**

The types of investments made by the Baupost Partnerships are subject to certain risks.

### Speculative Investment Strategy

By its nature, all investing, including by the Baupost Partnerships, is speculative. Despite the Baupost Partnerships' operating history, there is no assurance that the Baupost Partnerships will achieve their investment objective. Baupost's assessment of the short-term or long-term prospects of investments may not prove accurate. No assurance can be given that any investment strategy implemented by Baupost on behalf of the Baupost Partnerships will be successful, and investors may suffer a significant loss of their invested capital. Past performance of the Baupost Partnerships is not indicative of future results, which may vary.

### Broad Discretion

The Baupost Partnerships have a broad investment mandate that contemplates investing in a range of financial instruments, asset classes, and geographic regions, including those with respect to which Baupost initially may have limited experience.

### Value Style

Baupost adheres to a value investment philosophy. As a result, there is a risk that the securities markets may continue indefinitely to undervalue the investments in the Baupost Partnerships' portfolios or that the investments may fail to appreciate, as anticipated by Baupost. This risk may be greater for small and medium-sized companies, which could be more vulnerable to adverse developments and are less liquid to trade.

The Baupost Partnerships frequently invest in securities, industries and asset classes that are out of favor or ignored by other investors. Investors incur the risk that such a contrarian strategy may not succeed and, to the extent that adverse economic and investment trends continue for an extended time, that the Baupost Partnerships may not achieve their goals.

### Illiquid Investments

The Baupost Partnerships have in the past and expect in the future to purchase illiquid investments, which include securities whose disposition is restricted by the securities laws, by agreement or by other characteristics inherent in the investment or in the markets or other mechanisms by which such investment trades. For example, Baupost frequently invests in investment vehicles whose principal assets are comprised of real estate. These investments are typically highly illiquid.

The Baupost Partnerships may not be able to readily dispose of illiquid investments or may be contractually prohibited from disposing of such securities for a period of time. Accordingly, if the Baupost Partnerships' portfolios become more heavily weighted towards illiquid investments, the Baupost Partnerships' ability to redeem limited partnership interests in cash will be limited.

Securities that have not been registered under the Securities Act of 1933, as amended (the "1933 Act") are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market. Limitations on resale may have an adverse effect on the marketability of such securities. The Baupost Partnerships may have to register such restricted securities in order to dispose of them, resulting in additional expense and delay. For example, the Baupost Partnerships may purchase shares in PIPEs. Until the public registration process is completed, PIPEs are restricted as to resale and the Baupost Partnerships cannot freely trade the securities. This restricted period can last many months and the price of the security may fall during such restricted period. If the issuer is unable to obtain an effective resale registration statement for a PIPE, the PIPE will remain restricted under U.S. securities laws (subject to the availability of some other exemption) and the Baupost Partnerships may be unable to recover from the issuer an amount sufficient to compensate for the loss of liquidity of such security. There is no assurance that any restricted securities will be publicly registered, or that the registration will remain in effect. Trading volume also may be limited even for registered securities.

In addition, the Baupost Partnerships have in the past and expects in the future to invest in private equity investments. Such securities are illiquid and difficult to price for a variety of reasons. Because those securities are not regularly traded, even among institutional investors, a reliable arms-length price often is not available as a pricing benchmark. Furthermore, the value of illiquid investments of private companies may depend heavily on the complex legal rights attached to the securities themselves that are difficult to evaluate.

The Baupost Partnerships may invest in liquid securities that later become illiquid, for example, because Baupost or an affiliate serves on a creditor's or other committee in a bankruptcy proceeding or due to trade or other restrictions on certain securities. Such restriction may be of uncertain or protracted duration.

### Debt Securities

Fixed-income securities are subject to market and credit risk. Market risk relates to changes in a security's value as a result of changes in interest rates generally. Credit risk relates to the ability of the issuer to make payments of principal and interest.

Debt securities in which the Baupost Partnerships invest may or may not be rated by rating agencies such as Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Ratings Services ("S&P"), and, if rated, such rating may range from the very highest to the very lowest, currently C for Moody's and D for S&P. Securities rated below investment grade (below Baa if rated by Moody's and below BBB- if rated by S&P) normally provide a yield or yield to maturity

that is significantly higher than that of investment-grade issues, but are predominately speculative with respect to capacity to pay interest and repay principal. The lower-rated categories include debt securities that are in default and debt securities of issuers that are insolvent. The rating assigned to a security by Moody's or S&P does not reflect an assessment of the volatility of the security's market value or the liquidity of an investment in the security.

The values of lower-rated securities (including unrated securities of comparable quality) generally fluctuate more than those of higher-rated securities, although they may be less sensitive to interest rate changes. In addition, the lower rating reflects a greater possibility that the financial condition of the issuer, adverse changes in general economic conditions, or an unanticipated rise in interest rates, may impair the ability of the issuer to make payments of principal and income. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of fixed-income securities held by the Baupost Partnerships more volatile and could limit the Baupost Partnerships' ability to sell their securities at prices approximating the values the Baupost Partnerships had placed on such securities. In addition, the market price of lower-rated securities is likely to be more volatile because: (i) an economic downturn or increased interest rates may have a more significant effect on the yield, price and potential for default; (ii) the market may at times become less liquid or respond to adverse publicity or investor perceptions, increasing the difficulty in disposing of the securities; and (iii) past legislation has limited (and future legislation may further limit) investment by certain institutions in lower-rated securities or the tax deductibility of the interest by the issuer, which may adversely affect the value of such securities. The Baupost Partnerships will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase and may buy more.

Certain securities held by the Baupost Partnerships may permit the issuer of such securities at its option to "call," or redeem, its securities. If an issuer were to redeem securities held by the Baupost Partnerships during a time of declining interest rates, the Baupost Partnerships may not be able to reinvest the proceeds in securities providing the same investment return as the securities redeemed.

The Baupost Partnerships may at times invest in so-called "zero-coupon" bonds and "payment-in-kind" bonds. Zero-coupon bonds do not pay interest currently for their entire lives and normally are issued at a significant discount from their principal amount in lieu of paying interest periodically. Payment-in-kind bonds allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. Such investments may experience greater fluctuation in market value in response to changes in market interest rates than bonds which pay interest currently in cash. Both zero coupon and payment-in-kind bonds allow an issuer to avoid the need to generate cash to meet current interest payments, but also may require a higher rate of return to attract investors who are willing to defer receipt of such cash. Accordingly, such bonds may involve greater credit risks than bonds paying interest currently.

The Baupost Partnerships may invest in liquid bonds that later become illiquid (e.g., the issuer of a bond held by the Baupost Partnerships enters into bankruptcy proceedings causing interest payments on the bond to be deferred or the maturity date of the bond to be deferred indefinitely).

### Bank Loans

The Baupost Partnerships have in the past and expect in the future to invest in bank loans. Risks associated with bank loans include (i) the fact that prepayments may occur at any time without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause the Baupost Partnerships to reinvest prepayment proceeds in lower-yielding investments; (ii) the borrower's inability to meet principal and interest payments on its obligations (i.e., credit risk); and (iii) price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the borrower and general market liquidity (i.e., market risk). If bank loans become nonperforming, the loans may require substantial workout negotiations or restructuring that may result in, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the loan. In addition to the risks noted above, due to required third-party consents or other reasons, certain loans may not be purchased or sold as easily or as quickly as publicly traded securities. Moreover, historically, the trading volume in the loan market has not been as liquid as the market for public securities. The Baupost Partnerships may acquire interests in loans either directly (by way of assignment ("Assignment")) or indirectly (by way of participation ("Participation")) or through the acquisition of synthetic securities, structured finance securities or interests in lease agreements that have the general characteristics of loans and are treated as loans for withholding tax purposes. The Baupost Partnerships may also originate loans. The purchaser, in an Assignment of a loan obligation, typically succeeds to all the rights and obligations of the selling institution (the "Selling Institution") and becomes a lender under the loan or credit agreement with respect to the debt obligation. In contrast, Participations acquired by the Baupost Partnerships in a portion of a debt obligation held by a Selling Institution typically result in a contractual relationship only with such Selling Institution, not with the obligor. The Baupost Partnerships would have the right to receive payments of principal, interest and any fees to which it is entitled under the Participation only from the Selling Institution and only upon receipt by the Selling Institution of such payments from the obligor. In purchasing a Participation, the Baupost Partnerships generally will have no right to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such debt obligation, nor any rights of setoff against the obligor, and the Baupost Partnerships may not directly benefit from the collateral supporting the debt obligation in which it has purchased the Participation. As a result, the Baupost Partnerships would assume the credit risk of both the obligor and the Selling Institution. In the event of the insolvency of the Selling Institution, the Baupost Partnerships may be treated as a general creditor of the Selling Institution in respect of the Participation and may not benefit from any setoff between the Selling Institution and the obligor. Purchasers of loans are predominately commercial banks, investment funds and investment banks. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate

loan trading that may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because holders of such loans may be provided confidential information relating to the borrower, the unique and customized nature of the loan agreement and the private syndication of the loan, loans are not purchased or sold as easily as publicly traded securities are purchased or sold. In addition, historically the trading volume in the loan market has been small relative to the market for high yield debt securities.

### Loan Origination

The Baupost Partnerships may engage in loan origination activities. Such activities may subject the Baupost Partnerships or Baupost to regulatory requirements under the laws of certain jurisdictions. If the Baupost Partnerships originate loans with the intention of issuing participations to others with respect to the Baupost Partnerships' exposure to such loans, and if the Baupost Partnerships are unable to successfully close transactions for such participations, the Baupost Partnerships will be forced to hold their excess interest in such loans for an indeterminate period of time.

### Distressed Investments

The Baupost Partnerships have in the past and expect in the future to invest in the securities and obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments and the amount of any recovery may be affected by the relative security of the Baupost Partnerships' investment in the capital structure of the issuer. In certain periods, there may be little or no liquidity in the markets for these securities or instruments. In addition, the prices of such securities or instruments may be subject to periods of abrupt and erratic market movements and above-average price volatility. It may be more difficult to value such securities and the spread between the bid and asked prices of such securities may be greater than normally expected. If Baupost's evaluation of the risks and anticipated outcome of an investment in a distressed security should prove incorrect, the Baupost Partnerships may lose a substantial portion or all of their investment or they may be required to accept cash and/or securities with a value less than the Baupost Partnerships' original investment. In addition, distressed investments may be challenged as fraudulent conveyances and amounts paid on the investment may be subject to avoidance as a preference under certain circumstances.

### Valuation of Investments

Many of the investments made by the Baupost Partnerships are illiquid, complex and may be difficult to value. Actual realized returns on investments will depend among other things on the value of the securities at the time of disposition, any related transaction costs and the manner of



sale. Accordingly, the actual realized return on investments may differ materially from the values presented to the investors.

### Real Estate-Related Transactions

The Baupost Partnerships have in the past and expects in the future to invest in real estate and in real estate-related securities. Real estate-related securities include securities that are backed by, represent interests in or are secured by real estate, as well as securities issued by companies or limited partnerships or limited liability companies that invest in real estate or interests in real estate. Investments in real estate and real estate-related securities entail certain risks due to a variety of factors, including uncertainties surrounding the underlying real estate ventures and hidden defects that might not be discovered despite reasonable due diligence. Factors affecting the performance of real estate ventures may include changes in interest rates, excess supply of real property in certain markets, satisfactory completion of construction, sufficient level of occupancy, adequacy of financing available in capital markets, competent management, rent levels and maintaining adequate rent to cover operating expenses, regulatory limits on rents, local and regional markets for competing assets, changes in applicable zoning and other laws and governmental regulations (including taxes), the ability to obtain use or development entitlements and other regulatory permits and permissions, possible environmental liabilities and social and economic trends.

Real estate investments that the Baupost Partnerships may make include investments in non-U.S. properties. In addition to the risks associated with real estate investment generally, investment in non-U.S. properties and ventures involves additional risks such as currency exchange rate risk, liquidity risk, and the risk of unfamiliar or changing property ownership and tax laws. See “Non-U.S. Securities and Emerging Markets Securities” below.

Many of the real estate-related securities in which the Baupost Partnerships may invest will not be readily marketable. Investments in real estate and in real estate-related securities that are not readily marketable entail additional risks, such as difficulty in pricing the real estate or security for purposes of determining the particular Baupost Partnership’s net asset value (the “Net Asset Value”) and the possibility that the Baupost Partnerships would be unable to sell the real estate or security at a price that Baupost believes fairly represents its intrinsic value when they decide to sell the real estate or security.

The Baupost Partnerships frequently engage third-party operating partners to manage day-to-day operations of certain real estate interests. These operations are typically performed by the operating partner’s personnel, not by personnel of Baupost or any of its affiliates and Baupost typically does not exercise day-to-day control over or management of the operating partners. In addition, operating partners often identify potential investment opportunities to Baupost. While operating partners may co-invest in and receive a share of the profits from the assets they manage, there is a risk that their interests may not be directly aligned with those of the Baupost Partnerships and their decisions, actions or omissions may adversely affect the Baupost Partnerships. Since

operating partners may manage assets held by the Partnerships and assets not held by the Partnerships, operating partners may face conflicts of interest between choices that may favor one investment over another, as well as decisions regarding devotion of time and resources. When Baupost Partnerships invest in joint ventures, including those with operating partners, or pooled investment vehicles, investors generally bear the cost of management and performance fees to third parties in addition to the fees of Baupost and its affiliates. The Baupost Partnerships also may provide loans, which may be non-recourse to the borrower, to third party asset managers to fund capital commitments related to these investments and to operating partners to fund operating expenses.

#### Potential Environmental Liability of Real Estate Investments

Under various U.S. and non-U.S. federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such enactments often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. For example, the current owner of a parcel of land may be liable for environmental problems at, or emanating from, the parcel of land that were caused by a past owner or current operator of the site. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral. In addition, remediated property may attract a limited number of potential purchasers because of the property's history of contamination, which might also adversely affect the owner's ability to sell the property. Further, a transfer of property does not relieve from liability a person who owned the property at a time when hazardous or toxic substances were disposed of on, or released from, such property. In addition, noncompliance with environmental regulations may allow a governmental authority to order the owner / operator to cease operations at the property or to incur substantial costs and expenses to bring the property into compliance through the implementation of burdensome remediation or prophylactic measures. Where appropriate to reduce the possibility of liability under environmental laws, the Baupost Partnerships will seek to obtain indemnities from sellers, purchase environmental insurance or hold title in limited liability entities. Review of environmental issues will be conducted in accordance with customary industry standards applicable to such matters. There can be no assurance that environmental laws relating to real estate transactions will not be amended in the future in ways that could adversely affect the Baupost Partnerships' investments.

#### Mortgage-Backed and Asset-Backed Securities

The Baupost Partnerships have in the past and expect in the future to invest in mortgage-backed and asset-backed securities, frequently at discounts to original issue price because of distress in

the performance of the underlying collateral. When market interest rates decline, many mortgages are refinanced, and mortgage-backed securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. Accordingly, holders of these securities may not benefit fully from the increase in value that other fixed-income securities experience when rates decline. Furthermore, under such circumstances, the Baupost Partnerships would be forced to reinvest the proceeds of the payoff at current yields, which are lower than those paid by the security that was paid off. For distressed mortgage- or asset-backed securities, the continued underperformance of the collateral including rising default rates or loss severity, home price depreciation, litigation or problems with the servicing of the collateral, may all contribute to increased risk of loss and price decline.

When market interest rates increase, the market values of mortgage-backed securities usually decline. At the same time, however, mortgage refinancing slows, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of mortgage securities is usually more pronounced than it is for other types of fixed-income securities. The ability of an issuer of asset-backed securities to enforce its security interest in the underlying assets may be limited. Government policies regarding the modification of performing or non-performing mortgages may affect the value of these securities. Asset-backed securities are subject to many of the same risks as mortgage-backed securities.

Prepayments may cause losses on securities purchased at a premium. At times, some of the mortgage-backed and asset-backed securities in which the Baupost Partnerships may invest will have higher than market interest rates and therefore will be purchased at a premium above their par value. Unscheduled prepayments, which are made at par, will cause the Baupost Partnerships to experience a loss equal to any unamortized premium. In addition, a reduction in prepayments may increase the effective maturities of these securities, subjecting them to a greater risk of decline in market value in response to rising interest rates than traditional debt securities.

#### Non-U.S. Securities and Emerging Markets Securities

The Baupost Partnerships have in the past and expect in the future to invest in securities principally or exclusively traded in non-U.S. markets. Since non-U.S. securities are normally denominated and traded in non-U.S. currencies, the value of the Baupost Partnerships' assets may be affected favorably or unfavorably by currency exchange rates and exchange control regulations (which may include suspension of the ability to transfer currency from a given country and repatriation of investments). Exchange rates with respect to certain currencies may be particularly volatile. There may be less information publicly available about a non-U.S. company than about a U.S. company, and non-U.S. companies are not generally subject to accounting, auditing and financial reporting standards and practices comparable to those in the United States. The securities of some non-U.S. companies are less liquid and at times more volatile than securities of comparable U.S. companies. Non-U.S. brokerage commissions and other fees are also sometimes higher than in the United States. Non-U.S. settlement procedures and trade regulations may involve certain risks (such as

delay in payment or delivery of securities or in the recovery of the Baupost Partnerships' assets held abroad) and expenses not present in the settlement of domestic investments. The Baupost Partnerships may seek appropriate hedges for currency risk, but may be unsuccessful in identifying appropriate hedges and, even if found, such hedges may not prove to be effective. The Baupost Partnerships may engage in non-U.S. currency exchange transactions in connection with the purchase and sale of non-U.S. securities and to protect the value of specific portfolio positions, although appropriate hedging transactions may not always be available or, even if such transactions are available, Baupost may choose not to hedge non-U.S. currency exposure. Baupost generally does not delegate the discretion to select currency exchange rates and execution times to executing brokers or custodians.

Some countries in which the Baupost Partnerships may invest may have fixed or managed currencies that are not free-floating against the U.S. dollar. Further, certain currencies may not be traded internationally. Certain of these currencies have experienced or may experience a steady devaluation relative to the U.S. dollar. Any devaluations in the currencies in which the Baupost Partnerships' portfolio securities are denominated may have a detrimental impact on the Baupost Partnerships. Many countries in which the Baupost Partnerships may invest have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain countries.

In addition, there may be a possibility of nationalization or expropriation of assets, imposition of currency exchange controls, confiscatory taxation, political or financial instability and diplomatic developments which could affect the value of the Baupost Partnerships' investments in certain non-U.S. countries. Legal remedies available to investors in certain non-U.S. countries may be more limited than those available with respect to investments in the U. S. or in other non-U.S. countries. The laws of some non-U.S. countries may limit the Baupost Partnerships' ability to invest in securities of certain issuers located in those non-U.S. countries.

The risks described above, including the risks of nationalization or expropriation of assets, are typically increased to the extent that the Baupost Partnerships invest in issuers located in under-developed and developing nations, which are sometimes referred to as "emerging markets." Investments in securities of issuers located in countries with emerging economies or securities markets are speculative and subject to certain special risks. Political and economic structures in many of these countries may be in their infancy and developing rapidly, and such countries may lack the social, political and economic stability characteristic of more developed countries. Certain of these countries have in the past failed to recognize private property rights and have at times nationalized or expropriated the assets of private companies. In some instances it may be necessary for the Baupost Partnerships to appoint a local agent for the purpose of effecting the registration or sale of securities. There can be no assurance that the attorneys-in-fact that the Baupost Partnerships may from time to time appoint to serve as agents will properly effect such transactions or that they will not attempt to exceed their authority.

Emerging markets are also subject to unanticipated political or social developments that may affect the values of the Baupost Partnerships' investments in these countries and the availability to the Baupost Partnerships of additional investments in these countries. The small size, limited trading volume and relative nascency of the securities markets in these countries may make the Baupost Partnerships' investments in such countries illiquid and more volatile than investments in more developed countries. There may be little financial or accounting information available with respect to issuers located in these countries, and it may be difficult as a result to assess the value or prospects of an investment in such issuers. Because of these and other factors it is possible that the Baupost Partnerships may lose the entire amount of their investments in any such issuer.

### Trade Claims

The Baupost Partnerships have in the past and expect in the future to purchase claims against companies, including insolvent companies. These claims are typically unsecured and generally represent money due to a creditor or a supplier of goods or services to such company. An investment in trade claims is speculative and carries a high degree of risk. Trade claims are illiquid instruments which generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the trade claim. Such claims are typically unsecured and may be subordinated to other unsecured obligations of a debtor, and generally are subject to defenses of the debtor with respect to the underlying transaction giving rise to the trade claim. Although Baupost endeavors to protect against such risks in connection with the evaluation and purchase of claims, trade claims are subject to risks not generally associated with standardized securities and instruments due to the idiosyncratic nature of the claims purchased. These risks include the risk that the debtor may contest the allowance of the claim due to disputes the debtor has with the original claimant or the inequitable conduct of the original claimant, or due to administrative errors in connection with the transfer of the claim. Recovery on allowed trade claims also may be impaired if the anticipated dividend payable on unsecured claims in the bankruptcy is not realized or if the timing of the bankruptcy distribution is delayed. Accordingly, if the Baupost Partnerships do receive payment in respect of the trade claim investment, it may be in an amount less than what the Baupost Partnerships paid for or otherwise expect to receive in respect of the claim.

Additionally, there can be restrictions on the purchase, sale, and/or transferability of trade claims during all or part of a bankruptcy proceeding. The markets in trade claims generally are not regulated by U.S. federal securities laws or the SEC. The purchase and sale of trade claims are generally consummated by written contract between the parties and contain customary language regarding the return of a portion of the purchase price in the event that all or a portion of the claim is disallowed or rejected. Because trade claims are unsecured, holders of trade claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding.

Because they are not negotiable instruments, trade claims are typically less liquid than negotiable instruments. Given these factors, trade claims often trade at a discount to other *pari passu* instruments.

### Reorganization Transactions

The Baupost Partnerships have in the past and expect in the future to invest in the securities of companies involved in mergers, consolidations, liquidations and reorganizations or as to which there exist tender or exchange offers (collectively, “Reorganization Transactions”). The expected gain on an individual investment in a company involved in a Reorganization Transaction may be smaller than the possible loss if the transaction is unexpectedly terminated. The expected completion of each transaction is also important since the length of time that the Baupost Partnerships’ assets may be invested in securities of a company involved in a Reorganization Transaction will affect the rate of return realized by the Baupost Partnerships. The Baupost Partnerships generally will not invest their assets in a Reorganization Transaction unless Baupost determines that the probability of a timely and successful completion of the transaction offsets any risks associated with possible delays in its successful completion. Baupost has in the past and expects in the future to invest the Baupost Partnerships’ assets in negotiated, or “friendly,” reorganizations. Baupost may also invest the Baupost Partnerships’ assets in non-negotiated, or “hostile,” takeover attempts.

There can be no assurance that any Reorganization Transaction proposed at the time the Baupost Partnerships make investments will be consummated or will be consummated on the terms and within the time period contemplated. To the extent the Baupost Partnerships become involved in Reorganization Transactions, the Baupost Partnerships may participate more actively in the affairs of the issuer than may be typical for other investors, which may result in increased costs to the Baupost Partnerships, such as increased legal expenses.

### Pooled Investment Vehicles and Pass-Through Entities

The Baupost Partnerships have in the past and expect in the future to invest in other pooled investment vehicles, including real estate investment trusts, investment companies registered under the Investment Company Act, unregistered investment vehicles, and other private investment vehicles managed by third parties including operating partners engaged by Baupost to manage those investments. When the Baupost Partnerships invest in joint ventures, including those with operating partners, or pooled investment vehicles, investors bear the cost of management and performance fees of third parties in addition to the fees of the General Partners and their affiliates. In addition, such investments may have limited liquidity and any investment by the Baupost Partnerships in such vehicles will have the risks inherent in the instruments in which such vehicles invest.

### Company Ownership and Use of Special Purpose Vehicles

The Baupost Partnerships may own a controlling interest in companies in which it has invested. Because of its ownership, representation on the board of directors or other governing body and/or contractual rights, the Baupost Partnerships may be perceived as controlling, participating in the management of or influencing the conduct of such companies. This could expose the assets of the Baupost Partnerships generally to claims (for example, arising from environmental, pension or Foreign Corrupt Practices Act exposure) by such company, its other security holders, its creditors, governmental agencies or other third parties. Such liability may not be limited to any particular asset, such as the investment giving rise to the liability, and may exceed the value of the particular investment giving rise to the liability.

In addition, Baupost has in the past and expects in the future to use special-purpose entities in connection with certain transactions. Similar considerations may apply to these special-purpose entities. In addition, the bona fides of such entities may be subject to later challenge based on a number of theories, including veil piercing or substantive consolidation.

Accordingly, investors could find their limited partnership interests in the Baupost Partnerships adversely affected by a liability arising out of a particular investment.

### Third-Party Involvement

The Baupost Partnerships may hold a portion of its investments through partnerships, joint ventures, securitization vehicles or other entities with third-party investors. Joint venture investments involve various risks, including the risk that the Baupost Partnerships will not be able to implement investment decisions or exit strategies because of limitations on the Baupost Partnerships' control of the property under applicable agreements with joint venture partners, the risk that a joint venture partner may become bankrupt or may at any time have economic or business interests or goals that are inconsistent with those of the Baupost Partnership, the risk that a joint venture partner may be in a position to take action contrary to the Baupost Partnerships' objectives, the risk of liability based upon the actions of a joint venture partner and the risk of disputes or litigation with such partner and the inability to enforce fully all rights (or the incurrence of additional risk in connection with enforcement of rights) one partner may have against the other, including in connection with foreclosure on partner loans because of risks arising under state law. In addition, the Baupost Partnerships may be liable for actions of its joint venture partners.

### Control of Portfolio Investments

When the Baupost Partnerships purchase securities directly, they generally do so for investment purposes and not for the purpose of influencing or controlling management of the issuer. However, the Baupost Partnerships may seek to influence or control management. This activity may include investing in a potential takeover, leveraged buy-out or reorganization or by investing in other entities that were organized in order to purchase securities for the purpose of influencing or

controlling management. The Baupost Partnerships may also seek to influence or control management by, for example, discussing formally or informally with management different operating strategies, proposing shareholder resolutions, engaging in a proxy contest, serving on a board of directors or serving on a creditors' committee established in connection with a company's insolvency. The success of an investment predicated on the ability of the Baupost Partnerships to influence or control management depends upon, among other things: (i) Baupost's ability to properly identify companies whose securities prices can be improved through corporate and/or strategic action; (ii) the Baupost Partnerships' ability to acquire sufficient securities of such companies at a sufficiently attractive price; (iii) the Baupost Partnerships' ability to build its position in accordance with applicable regulations; (iv) the willingness of the management of such companies and other security holders to respond positively to Baupost's proposals; and (v) favorable movements in the market price of any such company's securities in response to any actions taken by such company. There can be no assurance that any of the foregoing will occur.

#### Master Limited Partnerships

Investments in securities of Master Limited Partnerships ("MLPs") involves certain risks that differ from investments in common stock, including risks related to limited control and limited rights to vote on matters affecting MLPs, risks related to potential conflicts of interest between an MLP and the MLP's general partner, including those arising from incentive distribution payments, cash flow risks, dilution risks and risks related to the general partner's right to require unit-holders to sell their common units at an undesirable time or price. Many of the Baupost Partnerships' investments in MLPs will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. In addition, certain tax risks are associated with investments in MLPs.

#### Securities of Small-to-Medium Sized Companies

The Baupost Partnerships have in the past and expect in the future to invest in securities of small-to-medium sized companies. Such companies may have limited product lines, markets or financial resources, and may be dependent on a limited management group. Securities of small-to-medium sized companies may be traded in the over-the-counter ("OTC") markets. While OTC markets have grown rapidly, many OTC securities trade less frequently and in smaller volumes than exchange-listed securities. The values of these securities may fluctuate more sharply than exchange-listed securities, and the Baupost Partnerships may experience some difficulty in acquiring or disposing of positions in these securities at prevailing market prices.

#### Leverage and Guarantees

While they have not historically done so, the Baupost Partnerships may engage in trading on margin by borrowing funds and pledging securities as collateral, thereby utilizing leverage. Although leverage increases returns if the Baupost Partnerships earn a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of



leverage decreases returns if the Baupost Partnerships fail to earn as much on such incremental investments as it pays for such funds. The effect of leverage in a declining market would also result in a greater decrease in the Baupost Partnerships' Net Asset Value than if the Baupost Partnerships were not so leveraged. If the assets, if any, used to secure the borrowing decrease in value, the Baupost Partnerships may be required to pledge additional collateral to the lender in the form of cash or securities to avoid liquidation of those assets or potential liquidation of the leveraged asset.

The Baupost Partnerships have in the past and may in the future invest in entities that are themselves subject to leverage, which may be substantial, including private equity and real estate vehicles. Debt may be placed on investments, including real estate, at the time of purchase, or subsequent to purchase. In limited circumstances, the Baupost Partnerships may provide additional security or a guarantee in connection with the issuance of such debt, or in connection with other types of obligations of portfolio investments. Baupost may also cause the Baupost Partnerships to guarantee or backstop certain obligations of third parties such as its operating partners in connection with underlying transactions.

### Derivatives

The Baupost Partnerships may engage in a variety of transactions using "derivatives," including options, futures and swaps. The use of derivative instruments may involve risks different from, or greater than, the risks associated with investing directly in the underlying securities. Derivatives are financial instruments the value of which depends upon, or is derived from, the value of something else, such as one or more underlying investments, indexes, interest rates or currencies. Derivatives may be traded on organized exchanges, or in individually negotiated transactions with other parties. Derivatives involve special risks and costs and may result in losses to the Baupost Partnerships. The successful use of derivatives requires sophisticated management, and will depend on the ability of Baupost to analyze and manage derivatives transactions. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. The Baupost Partnerships may use derivatives both for hedging and non-hedging purposes. These risks may be magnified in the case of complex derivatives that involve multiple underlying investments, indexes, interest rates and/or currencies.

If a derivative is used for hedging purposes, some risk may be caused by an imperfect or variable degree of correlation between movements in the price of the derivative and the price of the underlying security or instrument being hedged. In the event of an imperfect correlation between a derivative position and a portfolio position (or anticipated position) that is intended to be protected, the desired protection may not be obtained and the Baupost Partnerships may not achieve the desired hedging effect or be exposed to the risk of loss. With respect to currency hedging transactions, it is not always possible to hedge fully or perfectly against currency fluctuations affecting the value of the securities denominated in non-U.S. currencies because the

value of such securities also is likely to fluctuate as a result of independent factors not related to currency fluctuations.

Some derivatives, such as swaps, have a leveraging effect and therefore may magnify or otherwise increase investment losses to the Baupost Partnerships. Other risks arise from the potential inability to terminate or sell derivatives positions. A liquid secondary market may not always exist for the Baupost Partnerships' derivatives positions at any time. In fact, many OTC instruments will not be liquid.

A loss may be sustained by the Baupost Partnerships as a result of the failure of the other party to a derivative (a "counterparty") to comply with the terms of the derivatives contract. If there is a default by a counterparty, the Baupost Partnerships will be limited to contractual remedies pursuant to the agreements related to the transaction. There is no assurance that counterparties will be able to meet their obligations pursuant to the contracts or that, in the event of default, the Baupost Partnerships will succeed in pursuing contractual remedies. The Baupost Partnerships will generally attempt to mitigate such risk by requiring counterparties to post additional collateral as the value of a swap with such counterparty increases, but the collateral may be insufficient to cover the counterparty's obligations or the counterparty may refuse to post additional collateral. If a counterparty's creditworthiness declines, the value of a derivative with such counterparty may also decline.

The Baupost Partnerships will also be subject to counterparty risk in situations where the Baupost Partnerships are required to collateralize their position. For example, certain swaps and other transactions will require the Baupost Partnerships to post margin with a counterparty. These situations involve some risk to the Baupost Partnerships if the counterparty defaults on its obligations (or becomes insolvent or is otherwise unable to perform) and the Baupost Partnerships are delayed in or prevented from recovering the collateral. In addition, the Baupost Partnerships may be required to post collateral to cover any delay between the date of a trade and the settlement date. Some contracts may not require the counterparty to post collateral. In such circumstances, the Baupost Partnerships would not receive collateral from the counterparty to cover the Baupost Partnerships' exposure.

Derivatives transactions are also subject to documentation risk, including the risk that the parties may disagree as to the proper interpretation of the terms of a contract. If such a dispute occurs, the cost and unpredictability of the legal proceedings required for the Baupost Partnerships to enforce their contractual rights may lead the Baupost Partnerships to decide not to pursue its claims against the other counterparty. The Baupost Partnerships thus assume the risk that they may be unable to obtain payments owed to them under contracts relating to OTC transactions or that those payments may be delayed or made only after the Baupost Partnerships have incurred the costs of litigation. Furthermore, with respect to some derivatives contracts, the counterparty is given sole discretion over determinations that affect the value of the contract or the parties' rights and obligations under the contract.

To the extent the Baupost Partnerships engage in derivatives transactions with a single counterparty or a small number of counterparties, the Baupost Partnerships have greater exposure to the risks described in the foregoing paragraphs and a default by a single counterparty could have an adverse effect on the Partnership and its assets and investment returns.

Certain derivatives transactions that may be used by the Baupost Partnerships, including certain interest rate swaps and certain credit default index swaps, are required to be cleared. In a cleared derivatives transaction, a Partnership's counterparty to the transaction is a central derivatives clearing organization, or clearing house, rather than a bank or broker. Since the Baupost Partnerships are not members of a clearing house, and only members of a clearing house can participate directly in the clearing house, the Baupost Partnerships have entered into cleared derivatives transactions through clearing members that are futures commission merchants and members of the clearing houses. The Baupost Partnerships make and receive payments owed under cleared derivatives transactions (including margin payments) through its accounts at clearing members. A Partnership's clearing members guarantee the Partnership's performance of its obligations to the clearing house. In contrast to bilateral derivatives transactions, in some cases following a period of advance notice to a Partnership, clearing members can generally require termination of existing cleared derivatives transactions at any time and increase the amount of margin required to be provided by the Baupost Partnership to the clearing member for any cleared derivatives transaction above the amount of margin required by the clearing house or clearing member. Clearing houses also have broad rights to increase margin requirements for existing transactions and to terminate transactions. Any such termination or increase could interfere with the ability of a Partnership to pursue its investment strategy. Also, a Partnership is subject to execution risk if it enters into a derivatives transaction that is required to be cleared (or which Baupost expects to be cleared), and no clearing member is willing to clear the transaction on the Partnership's behalf. In that case, the transaction might have to be terminated, and the Partnership could lose some or all of the benefit of any increase in the value of the transaction after the time of the trade.

Some types of cleared derivatives are required to be executed on an exchange or on a swap execution facility. A swap execution facility is a trading platform where multiple market participants can execute derivatives by accepting bids and offers made by multiple other participants in the platform. While this execution requirement is designed to increase transparency and liquidity in the cleared derivatives market, trading on a swap execution facility can create additional costs and risks for the Baupost Partnerships. For example, swap execution facilities typically charge fees, and if a Partnership executes derivatives on a swap execution facility through a broker intermediary, the intermediary may impose fees as well. Transactions executed on a swap execution facility are subject to the rules of that facility, and a Partnership could be held liable for violations of such rules. As a member of a swap execution facility, the Partnership is subject to the jurisdiction of the swap execution facility with respect to the enforcement of its rules and to the ability of the swap execution facility to inspect the Partnership's books and records. Also, a

Partnership may indemnify a swap execution facility, or a broker intermediary who executes cleared derivatives on a swap execution facility on the Partnership's behalf, against any losses or costs that may be incurred as a result of the Partnership's transactions on the swap execution facility.

The Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations thereunder require real-time public reporting of swap transaction and pricing data, including for swaps that are executed on a swap execution facility. "Swap data repositories" are required to disseminate publicly certain data that they receive as soon as technologically practicable, subject to a time delay for certain large swap transactions ("block trades"). The minimum size of block trades and the time delay before dissemination of information regarding block trades has been a subject of concern in the markets, because public reporting of a large transaction immediately following execution could have an adverse impact on the ability of a party to the transaction to enter into offsetting transactions to hedge its exposure. The Commodity Futures Trading Commission has adopted rules that seek to mitigate this concern by establishing threshold swap notional amounts for off-exchange swaps, above which public reporting is delayed and the mandatory trade execution requirement falls away. While block trades that would otherwise have been subject to the trade execution requirement are required to be executed pursuant to the rules of a swap execution facility, they are not required to be executed through the swap execution facility's order book or request-for-quote system. The Baupost Partnerships have authorized Baupost to enter into block trades on behalf of the Baupost Partnerships from time to time.

In addition, the U.S. government and the European Union have proposed mandatory minimum margin requirements for over-the-counter derivatives. Such requirements could increase the amount of margin required to be provided by each Partnership in connection with its derivatives transactions and therefore make derivatives transactions more expensive.

These and other new rules and regulations could, among other things, further restrict the Baupost Partnerships' ability to engage in, or increase the cost to the Baupost Partnerships of, derivatives transactions, for example, by making some types of derivatives no longer available to the Baupost Partnerships, increasing margin or capital requirements, or otherwise limiting liquidity or increasing transaction costs. The costs of derivatives transactions are expected to increase as clearing members raise their fees so as to cover the costs of additional capital requirements and other regulatory changes applicable to the clearing members, and when rules imposing mandatory minimum margin requirements on over-the-counter derivatives become effective.

### Options

The Baupost Partnerships may seek to increase their current return by writing covered call and put options on securities. The Baupost Partnerships receive a premium from writing a call or put option, which increases the Baupost Partnerships' return if the option expires unexercised or is closed out at a net profit. When a Baupost Partnership writes a call option, it gives up the

opportunity to profit from any increase in the price of a security above the exercise price of the option; when it writes a put option, the Baupost Partnership takes the risk that it will be required to purchase a security from the option holder at a price above the current market price of the security. The Baupost Partnerships may also from time to time buy and sell combinations of put and call options on the same underlying security to earn additional income. The Baupost Partnerships may also buy options to enter into swap transactions (swaptions). In exchange for an option premium, the buyer of a swaption obtains the right, but not the obligation, to enter into a specified swap agreement with an issuer on a specified future date. The agreement will specify whether the buyer of the swaption will be a fixed-rate receiver (such as a call option on a bond) or a fixed-rate payer (such as a put option on a bond). The Baupost Partnerships may also buy and sell put and call options and buy swaptions for hedging purposes. The Baupost Partnerships' use of these strategies may be limited by applicable law.

### Futures and Related Options

The Baupost Partnerships may, to the extent permitted by applicable law, buy and sell futures contracts and related options. A futures contract is an agreement between two parties to buy and sell a specific quantity of a commodity (including a securities index or an interest-bearing security) for a set price at a future date. The Baupost Partnerships may also buy and sell call and put options on futures or on securities indexes in addition to or as an alternative to purchasing or selling futures contracts, or, to the extent permitted by applicable law, to earn additional income.

The use of futures and options involves certain special risks. Futures and options transactions involve costs and may result in losses. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of futures and options and movements in the prices of the underlying securities, securities index, currencies or other commodities or of the securities or currencies in the Baupost Partnerships' portfolios which are the subject of the hedge (to the extent the Baupost Partnerships use futures and options for hedging purposes). The successful use of futures and options further depends on Baupost's ability to forecast market or interest rate movements correctly. Other risks arise from the Baupost Partnerships' potential inability to close out their futures or options positions, and there can be no assurance that a liquid secondary market will exist for any futures contract or option at a particular time. The use of futures and options for purposes other than hedging is regarded as speculative. Certain regulatory requirements may also limit the Baupost Partnerships' ability to engage in futures and options transactions.

### Swaps, Caps, Floors, Collars and Credit Spread Trades

The Baupost Partnerships may enter into swaps, caps, floors, collars and credit spread trades on various securities, securities indexes, interest rates, prepayment rates, commodities, non-U.S. currencies or other financial instruments or indexes, including varying combinations thereof, for both hedging and non-hedging purposes, including, without limitation, to maximize returns (including to take advantage of the relative value across interest rates, credit spreads, volatility

levels, commodities indices, commodities subsectors, individual commodities, currency exchange rates, and equity indices), to preserve a return or spread on a particular investment or portion of its portfolio, to gain exposure to a particular market or market segment, to protect against (or to opportunistically benefit from) currency fluctuations, as a duration management technique, or to protect against any increase in the price of securities the Baupost Partnerships anticipate purchasing at a later date. Transactions consisting of multiple components may be more volatile, less liquid, and more difficult to price accurately than less complex securities or more traditional derivative transactions.

Swaps typically involve an exchange of obligations by two parties. For example, interest rate swaps involve the exchange of respective rights to receive interest, such as an exchange of fixed-rate payments for floating-rate payments. Currency swaps involve the exchange of respective rights to make or receive payments in specified currencies. In an equity swap, the counterparty generally agrees to pay the Baupost Partnerships the amount, if any, by which the notional amount of the equity swap contract would have increased in value had it been invested in the underlying stock or stocks plus the dividends that would have been received on those stocks. The Baupost Partnerships agree to pay to the counterparty a floating rate of interest (typically based on the London Inter Bank Offered Rate) on the notional amount of the equity swap contract plus the amount, if any, by which that notional amount would have decreased in value had it been invested in such stock or stocks. Therefore, the return to the Baupost Partnerships on any equity swap contract should be the gain or loss on the notional amount plus dividends on the underlying stocks less the interest paid by the Baupost Partnerships on the notional amount less premium paid, if any. The Baupost Partnerships may also from time to time enter into the opposite side of equity swap contracts, which are known as “reverse equity swaps.”

The Baupost Partnerships may also enter into credit default swaps, including credit default swaps on mortgage-backed securities (such as residential mortgage-backed securities), asset-backed securities, corporate debt, municipal debt or sovereign debt. In a credit default swap, one party pays what is, in effect, an insurance premium through a stream of payments to another party in exchange for the right to receive a specified return in the event of a default (or similar events) by a third party on its obligations. Typically, in a credit default swap, the Baupost Partnerships may pay a premium and, in return, have the right to put certain bonds or loans to the counterparty upon default by the issuer of such bonds or loans (or similar events) and to receive in return the par value of such bonds or loans (or another agreed upon amount). In addition, the Baupost Partnerships could also receive the premium and be obligated to pay a counterparty the par value of certain bonds or loans upon a default (or similar event) by the issuer. A credit default swap transaction on mortgage-backed and asset-backed securities, corporate debt, municipal debt or sovereign debt would be subject to the same risks as those described herein with respect to such securities, in addition to the risks associated with swap transactions.

Payments under a swap contract may be made at the conclusion of the contract or periodically during its term. The Baupost Partnerships thus assume the risk that they may be delayed in or

prevented from obtaining payments owed to them pursuant to swap contracts. To address this risk with respect to interest rate swaps, the Baupost Partnerships will usually enter into interest rate swap contracts on a net basis, which means that the two payment streams (one from the Baupost Partnerships to the counterparty, one to the Baupost Partnerships from the counterparty) are netted out, with the Baupost Partnerships receiving or paying, as the case may be, only the net amount of the two payments. Interest rate swaps do not involve the delivery of securities, other underlying assets, or principal. Accordingly, the risk of loss with respect to interest rate swaps entered into on a net basis would be limited to the net amount of the interest payments that the Baupost Partnerships are contractually obligated to make. If the other party to an interest rate swap defaults, the Baupost Partnerships' risk of loss consists of the net amount of interest payments that the Baupost Partnerships are contractually entitled to receive. In contrast, currency swaps and other types of swaps may involve the delivery of the entire principal value of one designated currency or financial instrument in exchange for the other designated currency or financial instrument. Therefore, the entire principal value of such swaps may be subject to the risk that the other party will default on its contractual delivery obligations. Credit default swaps generally only require payment in the event of an actual default or credit event, as opposed to a credit downgrade or other indication of financial difficulty.

In addition, because swap contracts are individually negotiated, there also may be circumstances in which it would be impossible for the Baupost Partnerships to close out their obligations under the swap contract. Moreover, unless the Baupost Partnerships choose to, and are successful in, negotiating transfer rights, then swaps contracts are ordinarily non-transferable. Under such circumstances, the Baupost Partnerships might be able to negotiate another swap contract with a different counterparty to offset the risk associated with the first swap contract. Unless the Baupost Partnerships are able to negotiate such an offsetting swap contract, however, the Baupost Partnerships could be subject to continued adverse developments, even after Baupost has determined that it would be prudent to close out or offset the first swap contract.

The use of swaps involves investment techniques and risks different from and potentially greater than those associated with ordinary portfolio securities transactions. If Baupost is incorrect in its expectations of market values, interest rates, or currency exchange rates, the investment performance of the Baupost Partnerships would be less favorable than it would have been if this investment technique were not used. Certain swaps that the Baupost Partnerships may use can also have the effect of creating leverage and thus can give rise to many of the same risks associated with borrowing funds or trading on margin. Because certain non-U.S. markets may be closed for all practical purposes to U.S. investors such as the Baupost Partnerships, the Baupost Partnerships have in the past and expect in the future to invest indirectly in such markets through swap transactions and would therefore be subject to the risks described above with respect to investments in non-U.S. securities. Swap transactions are also subject to the same counterparty risk as that described for derivatives generally.

The use of swaps involves the risk that the price of the swap used by the Baupost Partnerships to calculate Net Asset Value does not accurately reflect its fair value, which could have a favorable or unfavorable effect on the Net Asset Value of the Baupost Partnerships. Many swaps are complex and may be valued based on quotations given by swap counterparties, who have adverse interests to the Baupost Partnerships with respect to the value of such swaps. In certain cases, the Baupost Partnerships' swap counterparty may be the only source of value quotations for a swap, while in other cases, multiple quotes may be available. There are also different methodologies that may be used to determine the value of a credit default swap and credit default swap spreads may be wide. As a result of the foregoing factors, the Baupost Partnerships may not be able to close out swaps at the price used by the Baupost Partnerships to calculate Net Asset Value.

If the assets, if any, pledged to the counterparty in connection with a Partnership entering into a swap agreement decrease in value, the Partnerships may be required to pledge additional collateral to the lender in the form of cash or securities to avoid liquidation of those assets or potential liquidations of the leveraged asset. Also, under certain circumstances, if a swap counterparty undervalues the Baupost Partnerships' interest in a swap, it could require the Baupost Partnerships to transfer greater amounts of collateral to the counterparty than if the swap was valued at fair value. The rights of any counterparty to the Baupost Partnerships to receive payments may be senior to the rights of the investors, and the terms of the Baupost Partnerships' swap agreements may contain provisions that limit certain activities of the Baupost Partnerships.

Caps, floors and collars are variations on swaps. The purchase of a cap entitles the purchaser to receive payments from the party selling the cap to the extent that a specified index exceeds a predetermined interest rate or amount. The purchase of an interest rate floor entitles the purchaser to receive payments from the party selling the floor to the extent that a specified index falls below a predetermined interest rate or amount. A collar is a combination of a cap and a floor that preserves a certain return within a predetermined range of interest rates or values. Caps, floors and collars are similar in many respects to over-the-counter options transactions, and may involve investment risks that are similar to those associated with options transactions and options on futures contracts. A credit spread trade is an investment position relating to a difference in the prices or interest rates of two securities or currencies, where the value of the investment position is determined by movements in the difference between the prices or interest rates, as the case may be, of the respective securities or currencies.

### Short Sales

While not core to the investment strategy, the Baupost Partnerships may engage in short sales (and also gain short exposure through the use of derivatives, including forward sales, futures, and swaps). In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase or otherwise acquire the security prior to the date on which delivery to the broker or dealer is to be made. The Baupost Partnerships will



typically engage in short sales when Baupost believes the value of the security will decline or as part of a hedging strategy or as part of a stub trade. Short sales exposes the Baupost Partnerships to the risk of liability for the market value of the security sold. If the price of the security sold short increases between the time of the short sale and the time the Baupost Partnerships replace the borrowed security, the Baupost Partnerships will incur a loss; conversely, if the price declines, the Baupost Partnerships will realize a gain. Any gain will be decreased, and any loss increased, by the transaction costs associated with short sales. Although the Baupost Partnerships' gain is limited to the price at which they sold the security short, their potential loss is unlimited if the Baupost Partnerships do not own the security. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the Baupost Partnerships at a reasonable cost. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Baupost Partnerships may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and may in the future adopt rules requiring monthly public disclosure of short positions. In addition, other non-U.S. jurisdictions where the Baupost Partnerships may trade have adopted reporting requirements.

#### Repurchase Agreements

The Baupost Partnerships may enter into repurchase agreements with banks and broker-dealers, which are agreements by which the Baupost Partnerships acquire a security for cash and obtain a simultaneous commitment from the seller to repurchase the security at an agreed-upon price and date. The resale price is in excess of the acquisition price and reflects an agreed upon market rate unrelated to the coupon rate of the purchased security. Baupost will generally monitor such transactions to try to ensure that the value of the underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including the interest factor. Such transactions afford an opportunity for the Baupost Partnerships to earn a return on temporarily available cash at no market risk, although there is a risk that the seller may default in its obligation to pay the agreed upon sum on the redelivery date. Such a default may subject the Baupost Partnerships to expenses, delays and risks of loss. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the Baupost Partnerships may incur delays and costs in selling the underlying security or may suffer a loss of principal and interest if the Baupost Partnership is treated as an unsecured creditor and is required to return the underlying collateral to the seller's estate. The Baupost Partnerships may also enter into reverse repurchase agreements which involve the risk that the market value of the securities retained by the Baupost Partnerships may decline below the price of the securities the Baupost Partnerships has sold but is obligated to repurchase under the agreement. In the event the buyer of securities under a reverse repurchase

agreement files for bankruptcy or becomes insolvent, the Baupost Partnerships' use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Baupost Partnerships' obligation to repurchase the securities.

### Sovereign Debt

Investment in sovereign debt can involve a high degree of risk. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of the debt. A governmental entity's willingness or ability to repay principal and interest when due may be affected by, among other factors, its cash flow situation, the extent of its non-U.S. reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy toward the International Monetary Fund, the political constraints to which a governmental entity may be subject, and changes in governments and political systems. At certain times, certain countries (particularly emerging market countries) have declared moratoria on the payment of principal and interest on external debt. Governmental entities may also depend on expected disbursements from non-U.S. governments, multilateral agencies and others to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its debts in a timely manner. Consequently, governmental entities may default on their sovereign debt. Holders of sovereign debt may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. There is no bankruptcy proceeding by which sovereign debt on which governmental entities have defaulted may be collected in whole or in part.

### Concentration of Investments

During times when the Baupost Partnerships invest their assets in a small number of issuers, or in a larger number of issuers but with significant concentration of assets in only a few, the fair value of the Baupost Partnerships' assets may fluctuate more widely than the fair value of a portfolio that invests in a greater number of issuers. This lack of diversification involves an increased risk of loss to the Baupost Partnerships if an issuer in which the Baupost Partnerships invest were unable to make interest or principal payments or if the market value of the issuer's securities were to decline.

### Competition; Availability of Investments

Many of the markets in which the Baupost Partnerships invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that Baupost will be able to identify or successfully pursue attractive investment opportunities in such environments.

### Systemic Risk

Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Baupost Partnerships interact, as well as the Baupost Partnerships, are all subject to systemic risk which could impact the Baupost Partnerships and the markets for the securities in which the Baupost Partnerships seek to invest. Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions.

### Cybersecurity Risk

Cybersecurity risks are present for issuers of securities in which the Baupost Partnerships invest, which could result in material adverse consequences for such issuers, and may cause the Baupost Partnerships' investment in such securities to lose value. Such issuers may process, store and transmit large amounts of electronic information, including information relating to the transactions of the issuers. Similarly, service providers of issuers may process, store and transmit such information. Even if an issuer or service provider has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network-connected services provided by third parties to the issuers may be susceptible to compromise, and an issuer's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. In general, cyber-attacks are deliberate, but unintentional events may have similar effects. Cyber-attacks include, among others, stealing or corrupting data maintained online or digitally, preventing legitimate users from accessing information or services on a website, releasing confidential information without authorization, and causing operational disruption.

### Terrorism and Catastrophe Risks

The Baupost Partnerships may be subject to the risk of loss arising from exposure that it may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events.

### Investment and Due Diligence Process

Before making investments, Baupost conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Such due diligence often includes complex business, financial, tax, accounting and legal issues. When conducting due diligence and making an assessment regarding an investment, Baupost will rely on the resources reasonably available to it, which in some circumstances, whether or not known to Baupost at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

### Reliance on Key Personnel

The investment performance of the Partnership depends largely on the skill of key personnel of BGLLC, including, in particular, Mr. Seth Klarman and the other Partners. If any such key personnel were to leave BGLLC, it might not be able to find equally desirable replacements and the performance of the Partnership could, as a result, be adversely affected.

### Reliance on Third Party Managers

Because the Baupost Partnerships have in the past and expect in the future to invest in other pooled vehicles and joint ventures, the management of certain investments may be primarily performed by a party other than Baupost. Although the Baupost Partnerships will often have the ability to influence the management of such investment vehicles, there can be no assurance that Baupost will always be able to exercise control over the underlying investment decisions. Since investments decisions of such vehicles are made by the investment advisers independently of each other, at any particular time, one investment vehicle may be purchasing securities of an issuer whose securities are being sold by another investment vehicle, and the Partnership could indirectly incur certain transaction costs without accomplishing any net investment result.

## **Item 9. Disciplinary Information**

There is one disciplinary event regarding a Partner of Baupost, as follows:

Between 2003 and 2005, private funds managed by Baupost made three French real property investments alongside third parties through Luxembourg companies (the “Luxembourg Entities”). Thomas Blumenthal, a Partner, was appointed as a director of the Luxembourg Entities. Subsequent to the 2006 sale of these investments, the French Tax Administration (“FTA”) opened tax audits of the Luxembourg Entities. The FTA alleged that the Luxembourg Entities were not eligible for beneficial tax treatment under the France-Luxembourg tax treaty, and thus were required to pay income tax in France. One of the three Luxembourg Entities successfully proved in French court that no tax was due. The remaining two Luxembourg Entities appealed the FTA’s assessment to the French Supreme Tax Court. On March 31, 2017, the French Supreme Tax Court ruled against these Luxembourg Entities. In 2011, the FTA referred for investigation

potential charges against all of the directors of the two remaining Luxembourg Entities, including Mr. Blumenthal, alleging that these Luxembourg Entities and their directors had engaged in tax fraud as a result of the failure by these Luxembourg Entities to pay income tax in France. On January 11, 2017, Mr. Blumenthal was notified that a Magistrate Judge had charged the directors of these two Luxembourg Entities, including Mr. Blumenthal, with committing criminal tax fraud.

Following a trial, the court on June 20, 2018 convicted the directors of the two Luxembourg entities, including Mr. Blumenthal, of criminal tax fraud and sentenced each director to a fine and a suspended sentence. As to Mr. Blumenthal, the order of conviction imposed a fine of approximately US\$43,000, together with a suspended sentence of four years. The directors of the Luxembourg entities, including Mr. Blumenthal, were also determined to be jointly and severally liable as a civil matter for the balance of the income taxes and related interest and penalties determined to be due in respect of the Luxembourg Entities. The Baupost Partnerships that owned these investments paid their portion of the taxes, interest and penalties in 2017; the unpaid balance relates to an insolvent co-investor.

Mr. Blumenthal acted in good faith for the benefit of the Baupost Partnerships, having followed advice from prominent international tax advisors in connection with these investments. Baupost strongly disagrees with this verdict and, with the full support of Baupost, Mr. Blumenthal has appealed the judgment. All components of the judgment are suspended during the pendency of the appeal.

The Baupost Partnerships will not bear any portion of the appellate defense costs, the fine or the additional tax obligation. The verdict does not impact Mr. Blumenthal's continuing role as a Partner at Baupost.

#### **Item 10. Other Financial Industry Activities and Affiliations**

Neither Baupost nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of any of the foregoing entities. Baupost does not recommend or select other investment advisers for the Baupost Partnerships for which we receive compensation directly or indirectly from those advisers, nor does Baupost have other business relationships with those advisers that create a material conflict of interest.

As disclosed in Item 4, Baupost Partners serves as the profit sharing general partner to some of the Baupost Partnerships. Additionally, pursuant to a Sourcing and Sub-Management Agreement, Baupost Group International LLP, an affiliate of Baupost and investment adviser authorized by the U.K. Financial Conduct Authority, provides advisory services to Baupost by augmenting the sourcing of potential investments in Europe.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Baupost has adopted a Code of Ethics (the “Code”), which, amongst other things, (i) sets forth the standards of professional conduct to which Baupost requires all “supervised persons,” as defined in Section 202 of the Advisers Act, to adhere in accordance with our fiduciary obligations; (ii) governs the personal securities transactions of Baupost’s supervised persons; and (iii) requires all supervised persons to report any violations of the Code to Baupost’s chief compliance officer. The general principles of the Code seek to minimize conflicts of interest and, in accordance with fiduciary obligations, place the interests of the Baupost Partnerships first. As such, the Code provides that supervised persons conduct their personal investment activities in a manner that places the interests of the Baupost Partnerships first.

The Code restricts or prohibits certain personal investment transactions by supervised persons. Supervised persons may buy or sell certain “reportable securities” (as defined in the Code) for their own account only with the prior written authorization of designated officers of Baupost. In addition, among other things, supervised persons are (i) prohibited from buying or selling a security on the same day on which Baupost has a pending buy or sell order with respect to such security; (ii) required to disclose all personal reportable securities holdings upon commencement of employment and annually thereafter; and (iii) required to report all personal reportable securities transactions quarterly.

Supervised persons who are defined as “Investment Personnel” under the Code (generally, those employees who make investment recommendations on behalf of the Baupost Partnerships) are prohibited from purchasing “public securities” (as defined in the Code). In addition, Investment Personnel are prohibited from buying or selling securities for seven days before or after one of the Baupost Partnerships trades in such security.

The restrictions of the Code do not preclude purchases of interests in the Baupost Partnerships. Supervised persons may be investors of the Baupost Partnerships, and some of the key personnel of Baupost may have significant interests in the Baupost Partnerships as investors.

Baupost will provide a copy of the Code to any investor or potential investor upon request.

## **Item 12. Brokerage Practices**

It is Baupost’s policy, in placing each transaction for a Baupost Partnership, to seek “best execution.” Accordingly, Baupost will seek to obtain an outcome for a purchase or sale of a security that is in the best long-term economic interests of the Baupost Partnerships, subject to the circumstances of the transaction and the quality and reliability of the executing broker or dealer. Best execution is not measured solely by reference to commission rates or price. Baupost may cause the Baupost Partnerships to pay a broker a higher commission rate or price than what another

broker might charge if it believes that the difference in cost is reasonably justified in seeking what is in the best long-term economic interests of the Baupost Partnerships.

Baupost believes that for the vast majority of securities transactions for the Baupost Partnerships, best execution is not quantifiable, but rather is a set of quality standards – a trading process that seeks to maximize the value of a Partnership’s portfolio over the course of time, given the stated investment objectives and circumstances. In short, Baupost seeks to achieve the best overall end result for each Partnership, the key components of which include honorable intentions, a dedicated staff, up-to-date information and systems, reputable broker-dealers and sufficient oversight. Maximizing long term profit for the Baupost Partnerships takes precedence over short-term goals of cost efficiency in connection with individual trades.

Factors. In determining whether a particular broker or dealer is likely to provide best execution, Baupost takes into account all factors that it deems relevant to the broker’s or dealer’s execution capability, including:

- The overall reputation, experience and financial stability of the broker-dealer;
- The quality of the broker-dealer relationship with Baupost, including the attention, consistency and quality of trading personnel with whom transactions are conducted;
- Research services, including the quality of proprietary research and investment ideas that ultimately become meaningful positions in a Partnership’s portfolio of investments and the ability of the broker-dealer to provide access to company management and industry specialists, subject to the restrictions and limitations discussed in the Research Services Section below;
- The broker-dealer’s trading expertise, including the ability to minimize total trading costs and to trade without impacting the market;
- The ability, when possible, to maintain Baupost’s anonymity when executing a trade;
- The quality of execution, including the broker-dealer’s infrastructure in areas such as order handling, clearing and settlement;
- The ability to provide ad hoc information or other services;
- The quality of service rendered by the broker-dealer in prior transactions; and
- The belief that the broker-dealer charges a fair and reasonable fee for each trade, and that Baupost has been treated fairly and honestly in prior trades.

In determining whether a particular broker or dealer is likely to provide best execution in a particular transaction, Baupost will also take into account the following factors:

- The price, including commissions or spread;
- The size of the transaction;
- The timing of the transaction, taking into account market prices and trends;
- The nature of the market for the security;
- Whether the broker-dealer has the ability to transact in the share size and price sought by Baupost, and the ability to in fact execute and settle the trade;
- Whether the broker-dealer is informed about the investment and involved in the particular market in which the investment trades; and
- The difficulty of execution for the type of security and market in which it trades.

In addition, Baupost considers the use of electronic trading tools such as crossing networks and execution algorithms when placing trades on behalf of the Primary Partnerships, particularly when trading equities. These tools enable Baupost to transact passively and source liquidity anonymously. However, when the trade size is substantial, the requirements unusual or the issue illiquid, any of which may necessitate additional time for the trade to be executed, Baupost will often rely on the expertise and ability of individuals to assess and react to market conditions as they develop. In addition, when purchasing or selling OTC securities with market makers, Baupost generally seeks market makers it believes to be actively and effectively trading the security being purchased or sold.

Research Services. Many securities firms offer to provide investment managers (such as Baupost) a variety of services and benefits that go beyond execution, clearance and settlement of transactions. These services and benefits include such things as (i) the broker-dealer firms' proprietary research reports and analytical products, (ii) information and advice about market conditions and individual securities, (iii) investment opportunities that may be attractive for the Baupost Partnerships, and (iv) opportunities to meet with company management. Investment managers often seek to recognize broker-dealers who provide these services or benefits by directing transactions to these broker-dealers, or by paying higher commissions to these broker-dealers than would otherwise be appropriate.

A potential conflict of interest is presented in every instance where an investment manager chooses to place a client trade with a broker-dealer that has furnished the manager with services or benefits other than order execution, clearance and settlement (unless the manager has paid the full value of such services and benefits using the manager's own assets). The conflict arises because the manager receives a benefit for which it does not need to pay and has an incentive to select a broker-dealer based on its own interest in receiving such benefits, as opposed to the clients' interest in receiving most favorable execution. Because of this conflict of interest, the law places strict limits on investment managers' discretion to place transactions with broker-dealers who are providing



services or benefits to the investment manager. Baupost attempts to minimize such potential conflicts through the use of commission-sharing arrangements whereby a portion of the commission dollars generated through Baupost's normal trading activity are aggregated and periodically allocated through a third party to firms that provide research services to Baupost. Research services that Baupost may receive include research reports, investment ideas, access to issuer management and investment conferences and other information that assists Baupost in providing investment advisory services to the Baupost Partnerships. Baupost finds commission sharing arrangements to be valuable because by separating the execution and research capabilities of different broker-dealers, Baupost can concentrate trading with those broker-dealers that provide superior execution while still obtaining valuable research from other broker-dealers and research providers. Baupost's use of commissions to pay for research and related services is undertaken pursuant to the safe-harbor provisions of Section 28(e) of the Securities Exchange Act of 1934 and in accordance with SEC interpretive guidance regarding the application of such provisions.

In addition, broker-dealers may provide Baupost with access to proprietary research reports which are used for the Baupost Partnerships. Since these and other products and services are generally made available by broker-dealers as part of a bundled business package to Baupost (which may or may not use such products and services) without regard to rates of commission or volume of business, it is Baupost's understanding that such broker-dealers do not set discrete prices for such products and services. Accordingly, Baupost does not separately compensate such broker-dealers for the provision of such services and does not believe that it pays a premium for such broker-dealers' services, because these broker-dealers do not break out the costs for such services.

Baupost does trade with certain broker-dealer firms that provide valuable research and other services. However, the only circumstances in which Baupost, in selecting a broker-dealer to execute a transaction for a Baupost Partnership, may take into account research services or benefits provided by the broker-dealer are when Baupost has determined, in good faith, that the amount of commission on the transaction is reasonable in relation to the value of the research or other benefit from the broker-dealer, viewed in terms of either that transaction or Baupost's overall responsibilities to the Baupost Partnerships.

Baupost does not recommend, request or require that a Baupost Partnership execute transactions through a specific broker-dealer or permit any Baupost Partnership to direct Baupost's transactions to a particular broker, nor does Baupost consider, in selecting broker-dealers, whether we receive or a related person receives client referrals from a broker-dealer or a third party.

### **Trade Aggregation**

Once Baupost has determined that an investment will be purchased for all Primary Partnerships, Baupost will aggregate the Primary Partnerships' orders and place the aggregated order with a single broker or dealer for execution. As the Overflow Partnership is not making new investments other than follow-on investments, it will not participate in aggregated purchase orders with the

Primary Partnerships unless the investment is a follow-on investment or a hedge. The Overflow Partnership will participate in aggregated sales orders with the Primary Partnerships.

In most instances, aggregation of orders can result in lower commissions, a more favorable net price or more efficient execution than separately placing each Partnership's orders. Baupost is not obligated to place all transactions on an aggregated basis, and there may be instances in which order aggregation results in a less favorable transaction outcome than a particular Partnership would have obtained by trading separately. Each Partnership participating in an aggregated order will participate at the same price as all other participants, and all transaction costs on the order will be allocated pro rata to all participating Partnerships.

### **Trade Errors**

Baupost has established a Trade Error Policy to handle trade errors (as defined in the Policy) that may arise in connection with placing trades on behalf of the Baupost Partnerships. Baupost attempts to correct errors as soon as practicable after discovery. If a Partnership realizes a gain from a trade error or the correction thereof, the gain will remain with the Partnership. If a Partnership realizes a loss, Baupost will evaluate the trade error in light of the standard of care owed to the Partnership under the relevant LP Agreement. Accordingly, the cost of trade errors will be borne by the Baupost Partnerships unless attributable to the fraud, gross negligence or willful misconduct of Baupost.

### **Item 13. Review of Accounts**

Baupost's investment staff monitor the Baupost Partnerships investments on an ongoing basis. Additionally, Baupost, as managing general partner of the Baupost Partnerships, performs a monthly review of the Baupost Partnerships' accounts and ensures that each Partnership is in compliance with its LP Agreement. As part of this review, Baupost verifies that all income and loss items, management fee, and profit sharing obligation are allocated appropriately to each investor in the applicable Partnership. This allocation review is performed by Baupost's Portfolio Valuations, Accounting, & Reporting department under the supervision of its Executive Director and is overseen by Baupost's Chief Financial Officer.

The books and records of the Baupost Partnerships are also subject to external verification. The financial statements of the Baupost Partnerships are prepared and audited in conformity with accounting principles generally accepted in the United States of America ("GAAP") at each calendar year-end. Additionally, periodically throughout each year, Baupost engages an independent auditor to perform certain procedures for the Primary Partnerships including but not limited to independent valuation testing, custody verification, mathematical accuracy testing of trial balances and capital accounts, and management fee, profit sharing obligation, and income allocation testing.

Investors in the Baupost Partnerships are provided with regular written or electronic reports communicating information relating to capital account value, Baupost Partnership Net Asset Value, portfolio allocation, and performance. Regular reporting is provided at the capital account level, at the Partnership level, and consolidated across Baupost's entire portfolio of Partnerships with substantially similar investment objectives. Investors receive various written or electronic reports on a monthly, quarterly and annual basis.

Reports are distributed in hard copy or electronically, mainly through Baupost's website. Investors who are members of Baupost's Advisory Board may receive additional information.

Finally, Baupost holds periodic investor webcasts and meetings to provide updates on investment activity and performance of the portfolio. These oral communications are generally archived for a limited period on Baupost's website for the benefit of investors.

#### **Item 14. Client Referrals and Other Compensation**

Baupost does not compensate any person for client referrals, nor do we receive any economic benefit from someone who is not a client for providing investment advice or other advisory services to the Baupost Partnerships.

#### **Item 15. Custody**

Under Rule 206(4)-2 of the Advisers Act (often referred to as the "Custody Rule"), Baupost is deemed to have custody of client funds or securities in any circumstances under which (i) we actually possess funds or securities, (ii) we are authorized to withdraw funds or securities from the Baupost Partnerships (for example, to deduct fees), or (iii) we or a related person serves in a legal capacity, such as general partner, which affords us access to funds or securities of the Baupost Partnerships.

Accordingly, Baupost has engaged a PCAOB-registered independent accounting firm to perform an annual audit of the financial statements prepared in accordance with GAAP, which are distributed to all investors within 120 days of each Partnership's fiscal year end.

In addition, Baupost has retained several "qualified custodians" (as defined in the Custody Rule), which may be a broker-dealer, bank or another type of institution, to hold all assets of the Baupost Partnerships (other than certain privately offered securities) as required by the Custody Rule. These qualified custodians do not send account statements to investors in the Baupost Partnerships.

#### **Item 16. Investment Discretion**

Baupost has discretionary authority over all assets it manages for the Baupost Partnerships as described in the respective LP Agreements. This discretionary authority is conferred on Baupost pursuant to each Partnership's LP Agreement.

**Item 17.      Voting Client Securities**

Baupost has sole authority to vote the Baupost Partnerships' securities, and we adhere to an internal Proxy Voting Policy that governs our practices in exercising this voting authority. Our policy is to vote proxies on securities held by the Baupost Partnerships in a manner that seeks to maximize their long-term economic interests, although Baupost considers both the short-term and long-term implications of each proposal in determining the optimal vote.

If Baupost should determine that a material conflict of interest exists in voting a proxy (*e.g.*, if an employee of Baupost may personally benefit if the proxy is voted in a certain manner), Baupost's procedures provide for the Proxy Voting Committee to convene and to determine the appropriate vote. If the Proxy Voting Committee is unable to reach a decision, Baupost, at its own expense, will engage a competent third party to determine the appropriate vote based on Baupost's Proxy Voting Policy.

Information regarding how Baupost votes proxies is available to the Baupost Partnerships. Additionally, the Baupost Partnerships have access to Baupost's Proxy Voting Policy.

**Item 18.      Financial Information**

Baupost does not require or solicit prepayment of any fees six months or more in advance and does not have any financial condition that would impair its ability to meet contractual commitments to the Baupost Partnerships.